

Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 EA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-06 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
SOE-02 OMB-01 DOE-11 /125 W
-----025053 170029Z /75

R 161634Z JAN 78
FM USINT HAVANA
TO SECSTATE WASHDC 948
INFO AMEMBASSY CANBERRA
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY OTTAWA
USLO PEKING
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 HAVANA 0115

E.O. 11652: GDS
TAGS: ETRD, EPAP, EEWT, CU, UR, CH, JA
SUBJECT: CUBAN SUGAR PROSPECTS FOR 1978

1. SUMMARY: CUBAN SUGAR TRADER PAINTS OPTIMISTIC PICTURE FOR 1978, BUT OPTIMISM IS BASED ON POSSIBLE INCREASED SALES TO USSR, CHINA, AND JAPAN THAT MAY NOT OCCUR. END SUMMARY
2. USINT OFFICER, JANUARY 13, CALLED ON JOSE LAGO, VICE- PRESIDENT OF CUBAZUCAR, THE EXCLUSIVE CUBAN SUGAR TRADING FIRM. LAGO SAID THAT, DESPITE RECENT RAINS, CUBANS STILL EXPECT 1978 SUGAR PRODUCTION OF SEVEN MILLION TONS AND BELIEVE THEY WILL HAVE NO TROUBLE DISPOSING OF THIS AMOUNT AT FAVORABLE PRICES.
3. WITH REGARD TO SALES TO USSR, LAGO SAID THAT 1978 CONTRACT HAS ALREADY BEEN SIGNED SPECIFYING DELIVERY OF 2.7 MILLION TONS. ADDITIONAL PURCHASES ARE POSSIBLE, BUT SOVIETS
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HAVE NOT YET INDICATED THEIR INTENTIONS ON SUCH ADDITIONAL PURCHASES. LAGO SAID THAT, DUE TO FACT THAT IN 1976 SOVIETS REQUESTED ADDITIONAL ABOVE-AGREEMENT PURCHASES IN NOVEMBER-DECEMBER, DELAY IN RECEIVING ANY INDICATION UP TO JANUARY SUGGESTS THAT SOVIETS ARE HAVING TROUBLE MAKING UP THEIR MINDS. CUBANS, HOWEVER, REMAIN OPTIMISTIC ABOUT POSSIBLE ADDITIONAL SOVIET PURCHASES. LAGO SPECIFIED

THAT ANY SOVIET PURCHASES ABOVE THE AGREEMENT TOTAL WOULD HAVE TO BE PAID FOR IN HARD CURRENCY. (COMMENT: IF SOVIET DOMESTIC PRODUCTION, INDEED, APPROXIMATES 9 MILLION TONS, SOVIETS MAY BE THINKING HARD OVER DESIRABILITY OF EXPENDING CONVERTIBLE CURRENCY FOR INCREASED SUM OF CUBAN SUGAR-- PARTICULARLY SINCE PURCHASES UNDER CUBAN-SOVIET LONG-TERM AGREEMENT HAVE INCREASED ANYWAY. PREVIOUS YEAR'S SOVIET DOMESTIC PRODUCTION OF 7 MILLION PLUS TONS ONLY SPURRED ADDITIONAL HARD CURRENCY PURCHASES OF 1.6 MILLION TONS-- THAT IS, A TOTAL EXTRA-AGREEMENT TOTAL OF ABOUT 9 MILLION TONS--AN AMOUNT EQUALLED BY THIS YEAR'S SOVIET DOMESTIC PRODUCTION ALONE. IN ADDITION LAGO POINT OUT THAT SOVIET HARD CURRENCY PURCHASES ARE PRICED IN ACCORDANCE WITH AVERAGE SPOT PRICE IN MONTHS OF DELIVERIES. SINCE DELIVERY DATES FOR 2.7 MILLION TON SOVIET AGREEMENT SUGAR HAVE ALREADY BEEN FIXED, AS HAVE DELIVERY DATES FOR SOME 1 MILLION TONS OF FREE MARKET SUGAR SOLD UNDER MEDIUM-TERM AGREEMENTS, SOVIET HARD CURRENCY PURCHASES WOULD HAVE TO BE PHASED IN AND PRICE DETERMINED. OVER PERIOD EXTENDING TO END OF HARVEST. GIVEN PROBABLE ISA-INFLUENCED CONTINUAL SUGAR PRICE RISE, DELAY IN SOVIET DECISION HAS BEEN, AND WILL BE, COSTLY TO MOSCOW--IF ADDITIONAL PURCHASES ARE MADE. ALL THESE FACTORS SUGGEST VACILLATION ON MOSCOW'S PART REGARDING DESIRABILITY OF ADDITIONAL SUGAR PURCHASES. ON OTHER HAND, GIVEN APPARENT IMPOSITION OF HIGHER SUGAR PURCHASES ON EE--SEE HAVANA 90-- SOVIETS WILL BE UNDER STRONG PRESSURE TO FOLLOW SUIT.)
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4. LAGO ADDED THAT RUMOR IS NOW CIRCULATING IN LONDON THAT SOVIETS HAVE MADE CONVERTIBLE CURRENCY PURCHASE OF 250 THOUSAND TONS OF WHITES (REFINED SUGAR). LAGO SAID MARKET IS READING THIS AS SIGN THAT USSR WILL BE MAKING ADDITIONAL HARD CURRENCY PURCHASES. LAGO SAID THAT PERSONALLY HE DOUBTED VERACITY OF REPORTED PURCHASE SINCE SOVIETS WOULD PROBABLY HAVE COME TO CUBANS FIRST, THOUGH THERE IS POSSIBILITY THAT MOSCOW WAS SEEKING TO TAKE SHORT-TERM COMMERCIAL ADVANTAGE OF CURRENT LOW PRICE FOR REFINED SUGAR.

5. LAGO PREDICTED, DESPITE CURRENT UNFAVORABLE POLITICAL ATMOSPHERE, THAT CHINESE SUGAR PURCHASES FROM CUBA UNDER CLEARING AGREEMENT WOULD EXCEED 300 THOUSAND TONS AND MIGHT EVEN REACH 400 THOUSAND TONS IN 1978. (COMMENT: AGREEMENT HAS NOT BEEN SIGNED.) HE ADDED THAT CHINA HAD PURCHASED ABOUT 300 THOUSAND TONS OF CUBAN SUGAR IN 1977,

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C O N F I D E N T I A L SECTION 2 OF 2 HAVANA 0115

OF WHICH SOME 30 THOUSAND TONS WENT TOWARD AMORTIZING
CUBAN DEBT. THIS DEBT PAYMENT WOULD NOT BE REQUIRED
IN 1978 NOR IN FUTURE. LAGO DENIED THAT CHINESE PUR-
CHASED 60 THOUSAND TONS OF SUGAR FROM CUBA RECENTLY FOR
HARD CURRENCY. (COMMENT: LAGO'S CHIEF EMILIANO LEZCANO
PROVIDED INFORMATION ON CHINESE HARD CURRENCY PURCHASE--
SEE HAVANA 876. GIVEN FACT THAT SOVIET TRADE REPRESENTA-
TIVE WAS WITH LEZCANO, STORY MAY HAVE BEEN INTENDED TO
INFLUENCE MOSCOW. ON QUESTION OF DEBT WITH CHINA, CHINESE
CLAIMED TO US THAT BULD OF PEKING'S SUGAR PURCHASES
CONSTITUTE CUBAN DEBT REPAYMENTS. SOVIET AND EAST
EUROPEAN DIPLOMATS, ON OTHER HAND, BASED ON CONVERSA-
TIONS WITH CHINESE, CLAIM THERE ARE NO CUBAN DEBT REPAYMENTS.)

6. IN OTHER NON-COMECON SOVIALIST STATES, LAGO SAID,
CUBANS EXPECT INCREASE OF SUGAR PURCHASES BY VIET-NAM, AND
RELATIVELY STABLE PURCHASES BY NORTH KOREA AND ALBANIA. UP TO
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THE PRESENT, HE SAID, IT APPEARS THAT YUGOSLAVIA WILL NOT
BE BUYING IN 1978. LAGO ADMITTED THAT, UNLESS YUGOSLAVS
CHANGE MIND, CUBA WILL HAVE DIFFICULTY FILLING 650 THOUSAND
TONS NON-COMECON SOCIALIST ISA QUOTA.

7. IN FREE MARKET, LAGO WAS OPTIMISTIC ABOUT CUBAN SALES PROSPECTS IN SWEDEN, FINLAND, U.K., PORTUGAL, CANADA, AND DESPITE BAD POLITICAL CONDITIONS, IN MOROCCO. HE CONFIRMED THAT SPAIN WILL NOT BE PURCHASING CUBAN SUGAR IN 1978. (COMMENT: APPARENTLY SPANIARDS ARE COMMITTED TO PURCHASING SMALL SUM IN 1979.) WITH REGARD TO JAPAN, TOKYO WILL DEFINITELY PURCHASE 300 THOUSAND TONS OF SUGAR IN 1978, 1979, AND 1980. IN ADDITION, HE CLAIMED, JAPANESE MAY PURCHASE ADDITIONAL 200 THOUSAND TONS IN 1978. (COMMENT: LAGO WAS ADAMANT ON THIS POINT, ASSERTING THAT JAPANESE DUE TO "CHANGING CIRCUMSTANCES", HAVE BACKTRACKED SINCE NOVEMBER REJECTION OF CUBAN OFFER OF ADDITIONAL 300 THOUSAND TONS--SEE HAVANA 536. JAPANESE AMBASSADOR HERE, JANUARY 13, DENIED ANY KNOWLEDGE OF POSSIBLE ADDITIONAL 200 THOUSAND TONS PURCHASE.)

8. WITH REGARD TO ISA, LAGO SAID CUBANS HAD ABANDONED IDEA OF MAINTAINING PORTION OF REQUIRED STOCKS IN CANADA AS MEANS TO FACILITATE WINTER DELIVERIES. CUBAN STUDIES HAD SHOWN THAT FOREIGN WAREHOUSING WOULD BE TOO EXPENSIVE. CURRENT PLANS ARE TO MAINTAIN ISA STOCKS IN EIGHT BULK SUGAR SHIPPING PORT FACILITIES CURRENTLY EXISTING OR UNDER CONSTRUCTION IN CUBA. (COMMENT: FACILITIES CONTAIN LARGE WAREHOUSES.) LAGO SAID FOUR OF FACILITIES ARE LOCATED ON NORTH COAST OF CUBA, AND FOUR ON THE SOUTH COAST. THERE ARE PLANS, HE SAID, FOR TWO ADDITIONAL FACILITIES ON NORTH COAST IN CONNECTION WITH POSSIBLE FUTURE OPENING OF TRADE WITH US.
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